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Irving Trust Company A Charter New York Bank

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Economic Research
& Planning Division

The Economic Outlook

November 1979

It is becoming increasingly evident that the U.S. economy, which had been drifting along without clear direction for most of 1979, will soon be in an economic downturn. Although a recession involves hardships, it also offers the promise of reduced inflationary pressures. Decontrol of domestic crude oil prices and the possibility of additional increases in world oil prices, however, indicate that the moderation in inflation rates that would ordinarily follow a recession may not be quite as marked in this cycle as in preceding ones.

The potential for another surge in world oil prices is evident as a result of the recent developments in Iran. This makes the outlook for the U.S. inflation rate next year particularly murky. Assuming an average price of imported oil of about $25 a barrel next year, our forecast calls for a 10% rise in consumer prices for 1980 (on a December-to-December basis), as opposed to a 13.6% increase in 1979. Of course, if world oil prices rise above this level, next year's inflation rate would be above 10%.

This year's unusually high inflation rate is largely the result of rapid price increases in three areas: energy, food, and housing. As an indication of the importance of these items, the increase in the consumer price index (CPI) for all goods other than food and energy was 8.5% at an annual rate from December 1978 to September 1979, compared with a 13.7% rate for the CPI as a whole.

The treatment of housing costs in the CPI is rather peculiar and has probably resulted in an overstatement of the true rate of inflation. Together, financing costs and the purchase price of a home account for about 20% of the CPI. In the CPI, existing homeowners are implicitly treated as though they refinanced their homes every month--a strange assumption, to say the least. Furthermore, a rise in home prices is treated in the same way as a rise in the price of bread, when in fact rising home prices add to the net worth of existing homeowners, not to their cost of living. The reported inflation rate this year would be about 1.4% lower if these housing-related items were excluded from the CPI. If, however, interest rates fall during most of 1980--as we expect--lower home financing costs should help moderate the increase in consumer prices.

In other areas of the economy, signs of weakness are becoming increasingly apparent. Domestic auto sales were very weak in October. Once again, the auto companies have introduced various incentives to prop up sales, but recent experience has shown that any resulting improvement tends to be short-lived. Moreover, housing starts are likely to fall sharply in coming months as the effects of post-October 6 monetary stringency become more apparent. These factors will contribute to a decline in real gross national product during the first half of 1980. Nevertheless, because this has been the most widely publicized recession in history, firms are keeping tight control over inventories, a practice that will contribute importantly in reducing the severity of the recession. We expect the recession to end sometime in the third quarter of 1980. Given the likely political and economic environment next year, we think a tax cut (probably about $20 billion) will be enacted about mid-1980.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL 1979 I	ACTUAL 1979 II	ACTUAL 1979 III	FORECAST 1979 IV	FORECAST 1980 I	FORECAST 1980 II	FORECAST 1980 III	FORECAST 1980 IV	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Gross National Product	10.6	6.7	11.0	10.3	5.8	5.1	10.6	13.3	12.0	11.2	8.3
Real GNP	1.1	-2.3	2.4	1.0	-3.2	-4.0	1.8	5.0	4.4	2.2	-0.7
GNP Price Deflator	9.3	9.3	8.4	9.2	9.3	9.5	8.6	7.8	7.3	8.9	9.1

	ACTUAL 1979:III	FORECAST 1979:IV	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Consumer Spending	15.1%	9.5%	11.6%	11.5%	9.1%
Durable Goods	9.9	5.0	12.0	6.3	1.9
Nondurable Goods	15.5	8.2	10.2	11.6	9.1
Services	16.3	12.1	12.7	13.0	11.4
Business Capital Spending	13.7	14.4	16.7	14.8	9.8
Structures	19.5	21.4	22.2	20.7	12.4
Equipment	10.5	10.5	14.1	11.8	8.3
Residential Investment	7.5	3.5	17.5	8.9	-1.8
Change in Inventories	$20.0 b.	$-22.0 b.	$22.3 b.	$23.6 b.	$5.0 b.
Net Exports of Goods and Services	$-5.3 b.	$-10.0 b.	$-10.3 b.	$-4.8 b.	$-3.2 b.
Government Purchases of Goods and Services	8.5%	15.2%	9.9%	8.8%	11.1%
Federal	1.9	24.1	5.7	8.0	12.0
State and Local	12.1	10.9	12.4	9.3	10.6
Corporate Profits Before Tax	13.2*F	0.5*	16.3	11.7	-7.3
Corporate Profits After Tax	16.8*F	5.1*	16.3	16.5	-6.4
Plant and Equipment Expenditures	17.0 F	10.0*	13.3	14.3	9.7
Real Final Sales#	4.8	0.2	4.4	2.2	0.0
Real Disposable Personal Income	-1.1	-0.5	4.6	2.0	1.5

ECONOMIC INDICATORS	RECENT DATA July	RECENT DATA Aug.	RECENT DATA Sept.	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Consumer Price Index**	12.0%	13.2%	13.2%	9.0%	13.6%	10.0%
Producer Price Index for Finished Goods**	13.2	14.4	16.8	9.1	12.7	10.0
Industrial Production	1.6	-10.2	6.3	5.8	4.1	-4.0
Retail Sales##	0.8	3.1	2.2	10.3	10.4	9.2
Auto Sales (millions of units,a.r.)	10.6	11.0	10.8	11.3	10.9	10.3
Housing Starts (millions of units,a.r.)	1.79	1.81	1.88	2.02	1.73	1.51
Unemployment Rate	5.7	6.0	5.8	6.0	5.8	7.0
Merchandise Trade Deficit (a.r.)	$13.3 b.	$28.3 b.	$34.0 b.	$28.5 b.	$25.0 b.	$23.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

November 19, 1979

Economic Outlook

Irving Trust

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Economic Research &
Planning Division

B 4730-2

December 1979

As the year draws to a close, it's time to reflect upon economic developments during the past 12 months and assess the economic outlook for the year ahead. A year ago, we were looking for continued economic expansion throughout 1979, albeit at a diminishing rate. The economy was weaker in the first half than we had expected, mainly because of the gasoline shortage, but it rebounded in the third quarter rather than going into a sustained downturn as envisioned by the consensus forecast. We and others failed to foresee the surge in energy prices, which was a major factor behind this year's 13+% inflation rate, the highest in more than three decades. Late in 1978, the consensus forecast called for declining interest rates during most of 1979, whereas we expected significant increases in rates, although admittedly not quite to the record levels actually reached.

In 1980, the economic downturn anticipated for so long will finally be visible, though the recession will be significantly less severe than the last one. The recession will contribute to a moderation in inflation rates, but rising energy prices will continue to keep the rates relatively high. We're looking for about a 10% rise in consumer prices next year--barring unusually bad weather, disruptions in world oil supplies, or other such unforeseen events that have ruined inflation forecasts in the past. The economic downturn and diminishing inflation rates will lead to falling interest rates during most of 1980, with the prime likely to be near 11% at year-end.

The domestic auto industry is already in the throes of recession, to a significant degree because of inadequate capacity for producing the small energy-efficient cars that are selling well. The current rebates and dealer incentives may help eliminate the inventory overhang now, but they also virtually guarantee weak domestic auto sales in early 1980. Most other areas of retail sales will be much less severely affected by the recession, although sales of such "big ticket" items as major appliances invariably suffer once a broad economic downturn begins.

Housing starts have proved remarkably resilient in this period of rising interest rates. To a large extent, the availability of mortgage money has been maintained by the six-month money-market certificates and by increases in state mortgage usury ceilings. Under the current structure of interest rates, however, further declines in housing starts are inevitable. We look for housing starts to total 1.5 million units next year, versus 1.7 million units this year and 2 million units in 1978.

Businesses normally scale back their capital spending plans in a weak economic environment. The unusual aspect today, however, is the substantial backlog of orders for such diverse capital goods as aircraft, railroad equipment, and machine tools. To many firms, the recession will simply not be visible. Moreover, many businesses are continuing to maintain tight control over their inventories in line with all the gloomy forecasts around. This careful management of inventories will help avoid the deep cuts in production that made the last recession so nasty.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL 1979 I	ACTUAL 1979 II	ACTUAL 1979 III	FORECAST 1979 IV	FORECAST 1980 I	FORECAST 1980 II	FORECAST 1980 III	FORECAST 1980 IV	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Gross National Product	10.6	6.7	11.7	10.0	5.5	5.1	10.6	13.3	12.0	11.3	8.2
Real GNP	1.1	-2.3	3.5	1.1	-3.3	-4.0	1.8	5.0	4.4	2.3	-0.6
GNP Price Deflator	9.3	9.3	8.0	8.8	9.0	9.5	8.6	7.9	7.3	8.8	8.9

	ACTUAL 1979:III	FORECAST 1979:IV	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Consumer Spending	14.8%	9.4%	11.6%	11.4%	9.0%
Durable Goods	7.4	-5.3	12.0	5.4	-0.5
Nondurable Goods	16.7	11.2	10.2	12.0	9.7
Services	15.5	12.5	12.7	12.9	11.3
Business Capital Spending	22.4	12.1	16.7	15.8	9.7
Structures	21.8	15.6	22.2	20.5	12.0
Equipment	22.8	10.2	14.1	13.2	8.5
Residential Investment	13.0	3.5	17.5	5.9	-1.0
Change in Inventories	$15.3 b.	$20.0 b.	$22.3 b.	$21.9 b.	$4.5 b.
Net Exports of Goods and Services	$-3.5 b.	$-10.0 b.	$-10.3 b.	$-4.4 b.	$-4.2 b.
Government Purchases of Goods and Services	9.6%	14.3%	9.9%	9.0%	11.0%
Federal	2.5	23.5	5.7	8.1	11.8
State and Local	13.6	10.1	12.4	9.5	10.6
Corporate Profits Before Tax	14.4*	4.9*	16.3	14.4	-5.3
Corporate Profits After Tax	18.7*	9.6*	16.3	18.2	-4.0
Plant and Equipment Expenditures	14.2	10.4	13.3	14.3	9.4
Real Final Sales#	6.5	0.4	4.4	2.5	0.3
Real Disposable Personal Income	0.2	-0.1	4.6	2.2	1.5

ECONOMIC INDICATORS	RECENT DATA Aug.	Sept.	Oct.	ACTUAL 1977-1978	FORECAST 1978-1979	1979-1980
Consumer Price Index**	13.2%	13.2%	12.0%	9.0%	13.3%	10.3%
Producer Price Index for Finished Goods**	14.4	16.8	18.0	9.1	12.4	10.0
Industrial Production	-9.4	5.5	1.6	5.7	4.1	-4.0
Retail Sales##	3.3	2.6	-1.7	10.3	10.7	9.2
Auto Sales (millions of units,a.r.)	11.0	10.8	9.4	11.3	10.7	10.3
Housing Starts (millions of units,a.r.)	1.79	1.91	1.76	2.02	1.73	1.51
Unemployment Rate	6.0	5.8	6.0	6.0	5.8	7.0
Merchandise Trade Deficit (a.r.)	$28.3 b.	$34.0 b.	$24.2 b.	$28.5 b.	$25.0 b.	$23.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
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$b. = billions of dollars. a.r. = annual rate. F = Forecast.

December 17, 1979

B 4750-2

Economic Outlook

Irving Trust

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Economic Research & Planning Division

January 1980

Tradition dictates that crystal balls be polished with special care at the turn of a decade. Nevertheless, the major events of the 1970s were not foreseen by economic sorcerers 10 years ago, and it is unlikely that our clairvoyance has improved with the passage of time. The 1970s proved to be a difficult period for the world economy, but at least we can look ahead to the 1980s with the knowledge that in some respects the performance of the U.S. economy is likely to improve.

The tremendous surge in oil prices was certainly one of the most important economic developments of the 1970s, yet energy prices were not something to which people paid much attention at the start of the decade. In 1970, the price of crude oil imported into the United States was about $2.25 a barrel. By the end of the decade, crude oil prices were averaging $28-$30 a barrel in world markets. Nevertheless, our dependency on foreign oil actually increased during the 1970s. By keeping domestic oil prices artificially low, the controls program stimulated oil consumption and inhibited incentives to expand supply. At least now we are moving in the direction of decontrol, and U.S. auto manufacturers are beginning to produce more energy-efficient cars. Perhaps by the second half of the 1980s, these actions will strengthen U.S. bargaining power in world oil markets; but until then, we will continue to be vulnerable to interruptions of supply.

One of the consequences of rising oil prices was escalation of inflation rates. During the 1960s, consumer prices rose 2.3% a year. During the following decade, the average inflation rate jumped to 7.1%. In the first half of the 1980s, the inflation rate is likely to average still higher.

One of the important adverse economic developments in the 1970s was the slowdown in productivity growth. During the 1960s, productivity rose about 2.5% per year. During the 1970s, productivity advanced only about 1.2% per year. Some of the slowdown in productivity during the 1970s can be attributed to the rise in energy prices. Also, increased regulation and the influx of new workers into the labor force played a role. As the postwar baby bulge gains work experience in the 1980s, the productivity of this sector of the population should improve. In addition, fewer new regulatory burdens are expected. These factors are likely to lead to somewhat faster productivity growth in the 1980s.

Other developments likely to be visible in the 1980s include: more rapid growth in real defense expenditures, growing pressures on world food supplies, and increased attempts by OPEC-style cartels to restrict supplies of other commodities.

As for the near-term outlook, we still expect a decline in the level of economic activity in early 1980. The domestic auto industry is already reeling from continuing sluggish car sales, while housing starts are likely to remain under downward pressure. The weakness in these areas, combined with the stricter credit requirements imposed by many retailers and lending institutions as a result of the current high interest rates, will soon lead to a decline in overall activity. With the substantial capital goods orders backlog and business's continued conservative approach toward inventory management, the odds still favor a relatively moderate recession.

Bernard Schoenfeld

(Percent Changes at Annual Rates)

	ACTUAL 1979 I	ACTUAL 1979 II	ACTUAL 1979 III	FORECAST 1979 IV	FORECAST 1980 I	FORECAST 1980 II	FORECAST 1980 III	FORECAST 1980 IV	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Gross National Product	10.6	6.7	11.9	10.8	5.8	6.4	8.9	12.5	12.0	11.4	8.4
Real GNP	1.1	-2.3	3.1	1.5	-2.9	-2.7	0.5	4.0	4.4	2.3	-0.5
GNP Price Deflator	9.3	9.3	8.5	9.2	9.0	9.4	8.4	8.2	7.3	8.9	8.9

	ACTUAL 1979:III	FORECAST 1979:IV	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Consumer Spending	15.0%	11.8%	11.6%	11.6%	9.0%
Durable Goods	9.2	-6.4	12.0	5.5	-1.3
Nondurable Goods	17.1	16.8	10.2	12.3	10.3
Services	15.1	13.7	12.7	12.9	11.1
Business Capital Spending	22.0	9.3	16.7	15.6	9.7
Structures	21.7	13.2	22.2	20.4	9.9
Equipment	22.2	7.4	14.1	12.9	9.6
Residential Investment	11.7	-17.7	17.5	4.3	-3.0
			1978	1979	1980
Change in Inventories	$14.5 b.	$16.5 b.	$22.3 b.	$20.8 b.	$11.7 b.
Net Exports of Goods and Services	$-2.3 b.	$-2.0 b.	$-10.3 b.	$-2.1 b.	$-4.2 b.
			1977-1978	1978-1979	1979-1980
Government Purchases of Goods and Services	10.0%	14.3%	9.9%	9.0%	11.2%
Federal	3.1	21.1	5.7	7.9	12.0
State and Local	13.8	10.8	12.4	9.5	10.7
Corporate Profits Before Tax	14.3*	4.7*	16.3	14.3	-4.5
Corporate Profits After Tax	19.0*	9.6*	16.3	18.2	-2.8
Plant and Equipment Expenditures	14.2	10.4	13.3	14.3	9.7
Real Final Sales#	6.4	1.3	4.4	2.5	0.0
Real Disposable Personal Income	0.2	-1.0	4.6	2.1	1.5

ECONOMIC INDICATORS	RECENT DATA Sept.	RECENT DATA Oct.	RECENT DATA Nov.	ACTUAL 1977-1978	FORECAST 1978-1979	FORECAST 1979-1980
Consumer Price Index**	13.2%	12.0%	12.0%	9.0%	13.3%	10.8%
Producer Price Index for Finished Goods**	16.8	12.0	15.6	9.1	12.4	10.5
Industrial Production	6.3	0.0	-6.3	5.7	4.0	-3.5
Retail Sales##	2.9	-1.7	1.8	10.3	10.7	9.2
				1978	1979	1980
Auto Sales (millions of units,a.r.)	10.8	9.4	9.6	11.3	10.7	10.1
Housing Starts (millions of units,a.r.)	1.92	1.76	1.52	2.02	1.72	1.55
Unemployment Rate	5.8	6.0	5.8	6.0	5.8	6.9
Merchandise Trade Deficit (a.r.)	$34.0 b.	$24.2 b.	$17.0 b.	$28.5 b.	$23.5 b.	$25.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

January 7, 1980

Irving Trust

Economic Outlook

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Economic Research & Planning Division

RECEIVED 1980

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March 1980

At the beginning of 1980, most economic forecasters were predicting that a recession would be evident in the first half of the year. Much of the early 1980 economic data, however, has so far not been indicative of an economy in decline. January retail sales surged by more than 2%; industrial production rose a bit; and new orders for durable goods posted a substantial gain. All in all, the economy seems to be adjusting to extraordinarily high inflation rates only too well. The situation was inherently unstable, however, especially with short-term interest rates holding fairly steady through much of December and January. After the announcement in mid-February that the January producer price index for finished goods had risen at a 19.2% annual rate, the Federal Reserve promptly pushed the discount rate from 12% to 13%. Other money market rates moved up even more sharply soon after, along with rates on residential mortgages.

The tightening move by the Fed indicates that it most likely will maintain a restrictive stance until an abatement of inflationary pressures is evident. We have already seen what happens when the Fed relents--or appears to relent--prematurely. For instance, from June through September 1979, the dollar came under considerable downward pressure in foreign exchange markets. Although the Fed gradually pushed up the Federal funds rate during the summer, the dollar nevertheless continued to decline; and on October 6, the Fed was forced to adopt a more decisive stance to support the dollar. If the Fed appears to waver now in its war against inflation before signs are evident that the battle is being won, some external market force will cause the Fed to launch another assault. In essence, this means that the Fed will probably keep applying the monetary brakes until the economy shows definite signs of weakening.

The increases in interest rates that have already occurred make it all the more likely that an economic downturn will be visible in coming months. Since mortgage rates have risen along with other rates, housing starts are likely to weaken even more than previously anticipated. Moreover, the marginal cost of funds is now substantially higher than rates on installment loans in many states where usury ceilings apply. As a result, lending institutions are likely to tighten up even further in their credit requirements on installment loans--especially in view of steady increases in the delinquency rate on these loans. Sales of postponable, "big-ticket" items, such as appliances and carpeting, are likely to suffer. Auto sales, of course, are already having problems.

The combination of declining housing starts and sluggish sales of consumer durable goods should lead to a recession. Some important sectors of the economy--with aircraft manufacturing an oft-cited example--have such a substantial backlog of orders that continued increases in production are assured. Thus, it still seems likely that the recession will be rather moderate overall. As a result of the recession and an abatement in inflationary pressures--but with rising domestic energy prices keeping inflation rates relatively high--short-term interest rates are expected to be considerably below current levels by the end of this year.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL	FORECAST								ACTUAL	FORECAST	
	1979	1980				1981				1978-	1979-	1980-
	IV	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.9	7.7	5.8	8.1	12.7	13.8	14.5	13.4	13.4	11.4	8.7	12.4
Real GNP	2.1	-1.4	-3.0	-1.2	4.5	6.0	6.8	6.3	6.6	2.3	-0.2	4.5
GNP Price Deflator	8.7	9.6	9.0	8.6	7.8	7.4	7.2	6.6	6.4	8.8	8.9	7.5

	ACTUAL	FORECAST	ACTUAL	FORECAST	
	1979:IV	1980:I	1978-1979	1979-1980	1980-1981
Consumer Spending	14.5%	7.7%	11.8%	9.2%	11.0%
Durable Goods	6.0	5.5	6.4	2.5	11.6
Nondurable Goods	18.3	9.4	10.6	10.7	11.0
Services	13.9	8.2	12.9	10.0	10.7
Business Capital Spending	3.8	11.5	15.2	8.9	18.8
Structures	24.4	6.1	21.2	11.3	18.0
Equipment	-6.7	14.7	12.0	7.0	19.2
Residential Investment	1.8	-2.4	5.7	3.9	19.2
			1979	1980	1981
Change in Inventories	$6.7 b.	$3.5 b.	$18.5 b.	$8.0 b.	$17.6 b.
Net Exports of Goods and Services	$-10.5 b.	$-7.5 b.	$-4.2 b.	$-6.0 b.	$-6.0 b.
			1978-1979	1979-1980	1980-1981
Government Purchases	21.1%	8.1%	9.4%	11.0%	10.3%
Federal	43.8	7.6	9.2	12.7	12.0
Defense	22.2	9.0	9.4	12.9	14.1
Other	96.3	5.1	9.0	12.0	8.3
State & Local	10.4	8.4	9.5	10.1	9.4
Corporate Profits Before Tax	4.7*F	-3.6*	14.3F	-4.5	23.2
Corporate Profits After Tax	9.6*F	-2.9*	18.2F	-2.8	21.3
Plant and Equipment Expenditures	5.0 F	12.8	14.0F	9.0	19.0
Real Final Sales#	3.4	-0.9	2.6	0.3	4.2
Real Disposable Personal Income	0.6	0.3	2.3	0.8	4.3

	RECENT DATA			ACTUAL	FORECAST	
ECONOMIC INDICATORS	Nov.	Dec.	Jan.	1978-1979	1979-1980	1980-1981
Consumer Price Index**	12.0%	14.4%	16.8%	13.3%	11.2%	8.2%
Producer Price Index for Finished Goods**	15.6	9.6	19.2	12.5	11.2	7.8
Industrial Production	-0.8	1.6	3.2	4.2	-3.6	8.3
Retail Sales##	1.1	0.5	2.3	10.7	9.5	12.5
				1979	1980	1981
Auto Sales (millions of units,a.r.)	9.6	10.5	11.7	10.7	10.3	11.8
Housing Starts (millions of units,a.r.)	1.52	1.52	1.42	1.74	1.42	1.90
Unemployment Rate	5.8	5.9	6.2	5.8	6.9	6.5
Merchandise Trade Deficit (a.r.)	$32.8 b.	$48.8 b.	$57.1 b.	$37.3 b.	$46.0 b.	$48.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

March 6, 1980

B 4750-2 rec'd 4-21-80

Economic Outlook

Irving Trust

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Economic Research &
Planning Division

April 1980

It now appears that the long-anticipated recession has finally arrived. We won't know conclusively until the National Bureau of Economic Research (the recognized authority for dating business cycles) rules on the matter, but fragmentary evidence indicates that the U.S. economy is now in recession.

A useful measure for determining whether the economy is contracting or expanding is the index of coincident indicators. Coincident indicators, which have been essentially flat for a year now, fell 0.3% in February--not much of a drop. But in March, nonfarm payroll employment, one of the four components of the index, had the sharpest decline in five years. Virtually all of the decline was in the construction industry, but no significant increases were evident elsewhere, indicating the weakness is spreading. Industrial production, another component, will probably show a drop in April, if not in March, as a result of announced cutbacks in auto production and further weakness in the construction materials industry. In short, the overall level of economic activity has begun a cyclical downturn, and the numbers are just beginning to show it.

Real GNP is expected to decline in the second quarter, with the recession ending sometime around year-end. The recession will probably be comparatively moderate, though more severe than anticipated only a few months ago.

Any remaining questions about whether or not the much-discussed recession would ever arrive were removed by the anti-inflationary measures announced by the administration and the Federal Reserve on March 14. Several aspects of the March 14 program had special bite, particularly the monetary policy actions.

Perhaps the most important aspect was the statement by the Fed that growth in bank loans should generally not exceed 6%-9%. As a result, credit can be expected to be more difficult to obtain, especially for companies without access to the commercial paper market. Furthermore, by tightening marginal reserve requirements on banks' managed liabilities, the Fed caused the cost to banks of additional funds to rise sharply, which helped push the prime rate from 17.75% before March 14 to 20% today. Moreover, the 15% special deposit requirement with the Fed on increases in many types of unsecured consumer installment loans--in addition to the unfavorable rate spread in many states due to usury laws--has already caused several major retailers and lending institutions to restrict new consumer lending. And, of course, housing starts will be particularly hard hit by the recent surge in mortgage rates.

The situation is not entirely gloomy. Unusually large income tax refunds, the result of over-withholding in 1979, will help bolster the financial position of many families in the second quarter, while the substantial backlog of capital goods orders will act as a partial offset to negative forces in other sectors. Especially important, the decline in the producer price index for crude goods in March--even as prices of finished goods continued to rise sharply--is a reminder that a slowing in economic activity does indeed result in at least a partial curtailment of inflationary pressures.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL	FORECAST							ACTUAL	FORECAST	
	1979	1980				1981			1978-	1979-	1980-
	IV	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.5	11.6	7.0	4.3	6.0	11.0	13.8	14.5	13.7	11.3	8.9	10.1
Real GNP	2.0	1.5	-3.0	-4.3	-2.4	3.0	6.0	6.8	6.6	2.3	-0.3	1.9
GNP Price Deflator	8.4	10.0	10.4	9.0	8.6	7.8	7.4	7.2	6.6	8.8	9.3	8.0

	ACTUAL	FORECAST	ACTUAL	FORECAST	
	1979:IV	1980:I	1978-1979	1979-1980	1980-1981
Consumer Spending	14.3%	12.9%	11.8%	10.6%	9.1%
Durable Goods	5.4	7.6	6.3	1.1	4.7
Nondurable Goods	18.4	15.3	12.5	13.3	10.2
Services	13.5	12.4	12.9	11.2	9.3
Business Capital Spending	5.4	10.5	15.3	7.5	15.7
Structures	23.4	6.1	21.0	11.0	13.6
Equipment	-4.0	12.9	12.2	5.5	16.9
Residential Investment	1.4	-12.1	5.6	-7.0	10.7
			1979	1980	1981
Change in Inventories	$5.6 b.	$3.5 b.	$18.2 b.	$4.3 b.	$10.5 b.
Net Exports of Goods and Services	$-11.9 b.	$-7.5 b.	$-4.6 b.	$-6.0 b.	$-6.0 b.
			1978-1979	1979-1980	1980-1981
Government Purchases	21.1%	11.9%	9.4%	11.7%	9.1%
Federal	43.8	18.4	9.2	14.8	8.8
Defense	22.2	14.7	9.4	13.8	11.0
Other	96.3	25.3	9.0	16.4	4.9
State & Local	10.4	8.4	9.5	10.1	9.3
Corporate Profits Before Tax	8.3*	-2.1*	15.2	-4.6	21.0
Corporate Profits After Tax	12.5*	-1.1*	19.0	-3.0	19.1
Plant and Equipment Expenditures	18.1	12.8	15.1	8.7	16.2
Real Final Sales#	3.6	1.8	2.7	0.3	1.7
Real Disposable Personal Income	1.1	0.7	2.3	0.9	2.2

	RECENT DATA			ACTUAL	FORECAST	
ECONOMIC INDICATORS	Dec.	Jan.	Feb.	1978-1979	1979-1980	1980-1981
Consumer Price Index**	14.4%	16.8%	15.8%	13.3%	13.3%	8.2%
Producer Price Index for Finished Goods**	10.8	19.2	18.0	12.5	12.3	7.8
Industrial Production	0.8	3.9	2.4	4.2	-2.4	5.6
Retail Sales##	0.7	3.3	-0.7	10.7	10.2	10.1
				1979	1980	1981
Auto Sales (millions of units,a.r.)	10.5	11.7	10.4	10.7	10.0	11.2
Housing Starts (millions of units,a.r.)	1.55	1.42	1.33	1.75	1.10	1.66
Unemployment Rate	5.9	6.2	6.0	5.8	6.9	7.2
Merchandise Trade Deficit (a.r.)	$48.8 b.	$57.1 b.	$66.9 b.	$37.3 b.	$46.0 b.	$48.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

April 10, 1980

6/1/80 IE-4750-2

Economic Outlook

Irving Trust

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Economic Research &
Planning Division

May 1980

Signs of recession abound. For some industries, this downturn is already as intense as the last recession. Interest rates have fallen much more rapidly than had been generally anticipated, however, indicating that the recession will probably be about average in duration, ending near year-end. The peak-to-trough decline in real GNP is expected to be worse than average but not as severe as during the last recession.

Domestic auto sales faltered dramatically in April. It was anticipated that sales would weaken after the rebates expired at the end of March, but the telling blow was the surge in interest rates after the March 14 anti-inflation package. Although auto loans are specifically excluded from the 15% special deposit requirement on increases in consumer loans, the unprofitable spread resulting from state usury ceilings made auto credit (as well as other types of consumer credit) difficult to obtain. The situation has reversed rather dramatically, however, with banks' marginal cost of funds now below usury ceilings in many states. As a result, domestic auto sales will probably not fall below April's disastrous 6 million units (at a seasonally adjusted annual rate), but auto sales are nonetheless likely to remain quite weak until the 1981 models are introduced this fall.

The problems, of course, are familiar: a shortage of capacity to produce cars with energy efficiency on par with the imports, a heavy burden of consumer debt, and a reluctance on the part of consumers to incur additional debt when layoffs are mounting. Even sales of imports are feeling the effect of recession now. The net result is that domestic auto sales have experienced about the same peak-to-trough decline in this cycle as in the 1973-1975 recession. We expect 1980 auto sales to total about 9.7 million units, with domestic sales slightly more than 7 million units, down 24% from 1978.

The recent sharp declines in rates--some money market rates have plunged eight percentage points in a period of five weeks--probably indicate that the recession has turned out to be more severe than the Federal Reserve had bargained for. In any case, the declines in rates indicate that the seeds from which the recovery will grow have already been sown. The more favorable rate spread on consumer lending will eventually make this important source of credit more readily available, especially if, as we suspect, the 15% special deposit requirement is removed by fall. Moreover, mortgage rates have already begun to decline--quite sharply at certain institutions--indicating that housing starts should be on their way up by the fourth quarter.

It is possible, of course, that a reversal in interest rates may occur, especially if the Fed feels compelled to arrest the decline of the dollar in foreign exchange markets. But any such rise in short-term interest rates would be modest, and a few weeks later rates would be right back where they were and continuing to decline. At the same time, it is unlikely that the current negative <u>real</u> rate of interest (i.e., after removing the premium for inflation) on money market instruments will continue indefinitely. We expect the annualized rate of inflation to be near 9% (conceivably even less) by December, which would be consistent with a prime rate of about 11%, allowing for a modest positive real rate of interest.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL	FORECAST							ACTUAL	FORECAST	
	1980	1980			1981				1978-	1979-	1980-
	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.7	5.4	4.8	6.4	11.1	13.8	15.3	14.2	11.3	8.5	10.3
Real GNP	1.1	-4.2	-3.8	-2.1	3.0	6.0	7.6	6.9	2.3	-0.5	2.0
GNP Price Deflator	9.5	10.0	9.0	8.6	7.8	7.4	7.2	6.8	8.8	9.1	8.0

	ACTUAL	FORECAST	ACTUAL	FORECAST	
	1980:I	1980:II	1978-1979	1979-1980	1980-1981
Consumer Spending	14.3	6.7	11.8	11.0	10.4
Durable Goods	10.8	-12.9	6.3	0.9	10.2
Nondurable Goods	14.9	9.6	12.5	12.8	10.5
Services	14.9	10.3	12.9	12.4	10.3
Business Capital Spending	9.9	-2.9	15.3	5.6	10.7
Structures	10.0	-3.8	21.0	9.0	6.0
Equipment	9.9	-2.3	12.2	3.8	13.4
Residential Investment	-12.3	-33.7	5.6	-11.1	11.4
			1979	1980	1981
Change in Inventories	$4.5b.	$5.0b.	$18.2b.	$1.9b.	$6.3b.
Net Exports of Goods and Services	$-21.0b.	$-12.0b.	$-4.6b.	$-12.0b.	$-15.0b.
			1978-1979	1979-1980	1980-1981
Government Purchases	14.4	8.2	9.4	12.2	9.2
Federal	21.5	6.1	9.2	15.3	9.4
Defense	18.6	6.1	9.4	14.5	12.0
Other	26.8	0.0	9.0	16.8	4.8
State & Local	10.6	9.4	9.5	10.5	9.1
Corporate Profits Before Tax	10.8*F	0.7*	14.9	-2.5	17.0
Corporate Profits After Tax	12.3*F	0.5*	18.6	-1.8	17.2
Plant and Equip. Expenditures	9.4 F	-3.0	15.1	6.6	10.2
Real Final Sales#	1.5	-5.0	2.7	0.1	1.9
Real Disposable Personal Income	0.6	-2.5	2.3	-0.4	2.7

ECONOMIC INDICATORS	RECENT DATA			ACTUAL	FORECAST	
	Jan.	Feb.	Mar.	1978-1979	1979-1980	1980-1981
Consumer Price Index**	16.8	16.8	16.8	13.3	13.3	8.2
Producer Price Index for Finished Goods**	19.2	18.0	16.8	12.5	12.3	7.8
Industrial Production	3.9	-2.4	-9.4	4.1	-2.8	5.3
Retail Sales##	3.0	-1.6	-1.3	10.7	10.2	10.1
				1979	1980	1981
Auto Sales (millions of units, a.r.)	11.7	10.5	10.1	10.7	9.7	11.0
Housing Starts (millions of units,a.r.)	1.42	1.33	1.04	1.75	1.22	1.65
Unemployment Rate	6.2	6.0	6.2	5.8	7.2	7.5
Merchandise Trade Deficit (a.r.)	$57.1b.	$66.9b.	$37.9b.	$37.3b.	$42.0b.	$48.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
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$b. = billions of dollars. a.r. = annual rate. F = Forecast.

May 15, 1980

7/3/80 B4750-2 D

Economic Outlook

Irving Trust

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Economic Research & Planning Division

June 1980

A major concern now regarding the economic outlook is the severity of the recession. For some industries--the auto industry in particular--this downturn is every bit as nasty as the last one. Nevertheless, the evidence continues to suggest that overall this recession will not be as deep as the 1973-1975 downturn.

The last recession proved to be so severe largely owing to the extent of the inventory correction. The biggest decline in real GNP in the last recession--9% at an annual rate--occurred during the first quarter of 1975, primarily as a result of massive inventory liquidation. In general, the more disproportionately high inventories are prior to the downturn, the more intense the resulting contraction in economic activity. The experience prior to the current recession is unique in this respect. Because of the cautious management of inventories before the recession, real retail inventories, rather than following the normal pattern of a buildup prior to a recession, declined by an unprecedented 3% from the first quarter of 1979 to the first quarter of this year.

Regardless of how carefully inventories are controlled prior to a recession, however, once sales falter as much as they already have, inventories soon become undesirably high. As evidence of the recent unintended inventory accumulation, business inventories rose by a substantial 1.3% in April compared to the March level, with all sectors of the economy showing sharp increases in inventory-sales ratios. Thus, a period of inventory liquidation--which entails continued declines in production and employment--lies ahead. In comparison with the 1973-1975 experience, however, the current recession is helped by the fact that inventories were relatively lean prior to the downturn.

As in late 1974, when the last recession took hold with full force, auto sales and housing starts have been falling precipitously in recent months, while the unemployment rate has moved up sharply. Industrial production and employment have also declined substantially, but the drops are not as steep as in late 1974. The recent declines in retail sales, however, have been even more intense than during the fourth quarter of 1974. A partial explanation for this difference seems to be related to the 15% special deposit requirement that institutions had to maintain at the Federal Reserve on increases in many types of unsecured consumer credit. The requirement (now 7.5% and likely to be eliminated in coming months) was part of the March 14 anti-inflation package--which, ironically, was introduced after the recession had already begun--and seemed to do a thorough job of confusing many consumers. This requirement and an unprofitable rate environment for consumer lending led to a record 15% drop in installment credit extended in April compared to the March level.

The recent dramatic declines in short-term interest rates have made installment lending more attractive now from the creditor's viewpoint and should help lead to a turnaround in retail sales. In addition, the unusually sharp declines in mortgage rates should also cause housing starts, which in May were as low as at the bottom of the last recession, to rebound sooner than in the last recession. And another difference between the current situation and the last downturn is that real defense spending registered a 5% decline during the last recession, whereas it is likely to rise steadily in 1980 and during the next few years.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL	FORECAST							ACTUAL	FORECAST	
	1980	1980			1981				1978-	1979-	1980-
	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.8	2.7	3.7	7.7	13.4	16.6	14.1	14.8	11.3	8.0	11.2
Real GNP	1.2	-6.6	-4.7	-0.8	5.2	8.6	6.5	7.5	2.3	-1.0	2.9
GNP Price Deflator	9.5	10.0	8.8	8.5	7.8	7.4	7.2	6.8	8.8	9.1	8.0

	ACTUAL	FORECAST	ACTUAL	FORECAST	
	1980:I	1980:II	1978-1979	1979-1980	1980-1981
Consumer Spending	13.0%	-0.7%	11.8%	9.4%	11.4%
Durable Goods	7.7	-34.4	6.3	-4.6	13.8
Nondurable Goods	14.2	1.5	12.5	11.4	11.0
Services	13.6	9.2	12.9	11.9	11.2
Business Capital Spending	11.6	-7.4	15.3	4.5	12.0
Structures	12.9	-10.8	21.0	7.0	7.0
Equipment	10.8	-5.3	12.2	3.2	15.1
Residential Investment	-19.3	-42.6	5.6	-9.6	20.4
			1979	1980	1981
Change in Inventories	$4.7b.	$19.0b.	$18.2b.	$3.4b.	$8.1b.
Net Exports of Goods and Services	$-13.6b.	$0.0b.	$-4.6b	$-0.9b.	$-10.0b.
			1978-1979	1979-1980	1980-1981
Government Purchases	13.4%	9.1%	9.4%	12.2%	9.3%
Federal	18.7	8.7	9.2	15.2	9.5
Defense	18.6	6.1	9.4	14.5	12.0
Other	18.7	6.8	9.0	16.4	5.2
State & Local	10.5	9.4	9.5	10.5	9.1
Corporate Profits Before Tax	11.6*	1.5*	14.9	-1.8	17.0
Corporate Profits After Tax	11.3*	-0.4*	18.6	-2.7	17.2
Plant and Equip. Expenditures	9.8	-6.9	15.1	5.8	10.5
Real Final Sales#	1.5	-9.3	2.7	-0.4	2.8
Real Disposable Personal Income	0.9	-3.2	2.3	-0.5	2.9

	RECENT DATA			ACTUAL	FORECAST	
ECONOMIC INDICATORS	Feb.	Mar.	Apr.	1978-1979	1979-1980	1980-1981
Consumer Price Index**	16.8%	16.8%	10.8%	13.3%	13.3%	8.2%
Producer Price Index for Finished Goods**	18.0	16.8	6.0	12.5	11.6	7.9
Industrial Production	-2.4	-9.4	-21.4	4.1	-5.0	5.3
Retail Sales##	-1.9	-1.9	-2.3	10.7	3.7	8.1
				1979	1980	1981
Auto Sales (millions of units, a.r.)	10.5	10.1	8.3	10.7	9.6	11.0
Housing Starts (millions of units,a.r.)	1.33	1.04	1.02	1.75	1.22	1.65
Unemployment Rate	6.0	6.2	7.0	5.8	7.6	7.9
Merchandise Trade Deficit (a.r.)	$66.9b.	$37.9b.	$22.4b.	$37.3b.	$35.0b.	$45.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data

#GNP less change in inventories, both in real terms.

*Year-over-year percent changes.

**Annual percent changes are December to December (not seasonally adjusted).

##Monthly percent changes are not annualized.

$b. = billions of dollars. a.r. = annual rate. F = Forecast.

June 20, 1980

8/22/80 B 4750-2 U

Economic Outlook

Irving Trust

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Economic Research & Planning Division

August 1980

Seven months into a recession, the likely duration of the downturn should be coming into focus. Our view has long been that the recession would be over by about year-end. In light of recent developments, it now seems to us that the bottom of the recession may be reached as early as October.

The drop in economic activity in the second quarter was extraordinarily large. Real GNP fell 9.1% at an annual rate--about equal to the sharpest quarterly decline in the last recession--and the collapse in consumer spending was especially dramatic. On the favorable side, the buildup of undesired inventories during the second quarter was relatively small. As a result, although some inventory liquidation is inevitable, it is not likely to be as pronounced as was the significant inventory liquidation that depressed the economy in the latter stages of the last recession.

Several recent developments suggest that the worst part of the recession is now history. Retail sales rose 1.5% in June from the May level, the first increase since January. Housing starts reached a low of 913,000 units (at an annual rate) in May--as bad as during the last recession. But in June, they jumped to 1.19 million units in response to substantial declines in mortgage rates. The trough in housing starts has occurred earlier in this recession than in the last, and the recovery has been sharper.

Improvement in housing starts and auto sales is likely to contribute to a slight rise in real GNP in the fourth quarter. The 1981 model cars to be introduced in the fall by the domestic manufacturers will be more competitive with imports in terms of energy efficiency. This should lead to a pickup in auto sales, though admittedly from a very depressed level. Moreover, now that the various credit controls have been eliminated along with other aspects of the March 14 anti-inflation package, a gradual improvement in retail sales can be expected.

The early-recovery scenario outlined above is crucially dependent on the assumption that interest rates do not back up significantly for any sustained period. Several forecasters who see the recession continuing into early next year are concerned about the possibility of a sustained reversal in rates. There is additional concern that possible high inflation rates emanating from the effect of the heat wave on food prices could lend upward support to interest rates. Some churning in interest rates is to be expected in the months ahead, but we expect the basic trend to continue downward as inflation rates abate later this year and the unemployment rate remains relatively high. And overall, the recovery in 1981 is expected to be quite respectable, though less buoyant than after the last recession.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

			FORECAST						ACTUAL	FORECAST	
			1980		1981				1978-	1979-	1980-
	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.8	0.4	4.1	9.5	13.4	15.3	13.4	14.0	11.3	7.6	11.0
Real GNP	1.2	-9.1	-4.1	1.3	5.2	7.3	5.8	6.7	2.3	-1.3	2.9
GNP Price Deflator	9.5	10.4	8.5	8.0	7.8	7.4	7.2	6.8	8.8	9.1	7.9

	ACTUAL	FORECAST	ACTUAL	FORECAST	
	1980:II	1980:III	1978-1979	1979-1980	1980-1981
Consumer Spending	-0.3%	9.7%	11.8%	9.8%	11.3%
Durable Goods	-35.9	-4.0	6.3	-4.6	12.4
Nondurable Goods	1.5	10.7	12.5	11.5	10.7
Services	10.7	12.6	12.9	12.7	11.5
Business Capital Spending	-9.5	-5.9	15.3	3.8	11.6
Structures	-2.2	-4.2	21.0	9.4	7.2
Equipment	-13.8	-6.9	12.2	0.7	14.3
Residential Investment	-57.0	-16.0	5.6	-17.3	24.0
			1979	1980	1981
Change in Inventories	$11.7 b.	$-8.0 b.	$18.2 b.	$1.4 b.	$7.3 b.
Net Exports of Goods and Services	$1.3 b.	$5.0 b.	$-4.6 b.	$-0.6 b.	$-11.5 b.
			1978-1979	1979-1980	1980-1981
Government Purchases	7.8%	8.6%	9.4%	11.8%	8.6%
Federal	14.2	7.3	9.2	16.3	9.3
Defense	14.1	10.1	9.4	15.3	11.6
Other	14.5	2.3	9.0	18.0	5.1
State & Local	4.2	9.4	9.5	9.4	8.3
Corporate Profits Before Tax	-2.2 *F	-12.4*	14.9	-3.0	17.0
Corporate Profits After Tax	-3.2 *F	-13.4*	18.6	-3.5	17.2
Plant and Equip. Expenditures	-6.9 F	-4.0	15.1	5.8	10.5
Real Final Sales #	-9.6	-2.2	2.7	-0.6	2.4
Real Disposal Personal Income	-5.6	-2.0	2.3	-0.8	3.2

	RECENT DATA			ACTUAL	FORECAST	
ECONOMIC INDICATORS	Apr.	May	June	1978-1979	1979-1980	1980-1981
Consumer Price Index**	10.8%	10.8%	12.0%	13.3%	12.8%	8.2%
Producer Price Index for Finished Goods **	6.0	3.6	9.6	12.5	11.7	7.9
Industrial Production	-26.9	-29.1	-29.0	4.1	-6.1	2.2
Retail Sales ##	-2.0	-1.0	1.5	10.7	4.2	9.8
				1979	1980	1981
Auto Sales (millions of units, a.r.)	8.3	7.4	7.4	10.7	9.4	10.7
Housing Starts (millions of units, a.r.)	1.03	0.91	1.19	1.75	1.23	1.64
Unemployment Rate	7.0	7.8	7.7	5.8	7.5	7.7
Merchandise Trade Deficit (a.r.)	$22.4 b.	$47.5 b.	$27.4 b.	$37.3 b.	$35.0 b.	$45.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

August 4, 1980

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Economic Outlook

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Economic Research &
Planning Division

September 1980

Judging from recent economic predictions, it seems that economic forecasters have been gazing into a bowl of alphabet soup rather than into their usual oil-stained crystal balls. Depending upon which sorcerer you listen to, the path of the economy in 1980 and 1981 will look like a V, a U, a W, an L, a backwards J, or (if your sorcerer is the indecisive type) an O. The economy is indeed sending out conflicting signals today. Nevertheless, the evidence still indicates to us that the recession will reach bottom before year-end, perhaps as soon as October, and that the economy next year will grow faster than the long-term trend rate of growth, though not quite as rapidly as in the early stages of most other post-World War II recoveries.

A number of developments in a recession lay the groundwork for the ensuing recovery, one of the most important of which is moderation of inflation. For example, the 14% annualized increase in consumer prices evident in the first quarter of 1974 was cut in half during the last months of the recession. During the first quarter of this year, the consumer price index excluding mortgage interest costs (to avoid distortions) rose at an annual rate of 14.8%. But in recent months, the rate has been cut in half. This moderation in inflation rates reflects the performance of energy prices as much as the recession, but nonetheless the trend is gratifying.

Unfortunately, producer prices for finished goods rose 18%-20% in July and August, primarily reflecting the surge in food prices that resulted from the heat wave. Reports on consumer prices in coming months will also reflect the rise in food prices, though not as dramatically as at the producer level. Inflation rates are likely to continue to be volatile--inflation rates near 8% are likely in November and December, while sharply rising beef prices could be a problem in the first quarter of next year. The overall trend, however, should show diminishing inflation rates next year. With capacity utilization rates relatively low, sharp gains in productivity are likely to be evident. (The average increase in productivity is 4.7% during the first 12 months of recovery.) This will be important in holding down unit labor costs and relieving inflationary pressures.

The moderation in inflation rates will contribute to renewed growth in real disposable personal income, which, combined with a significant improvement in consumer liquidity resulting from recent unprecedented declines in installment credit outstanding, will lead to continued increases in real consumer spending. Moreover, past declines in retail sales have to a certain extent represented pent-up demand (particularly for durable goods); and over time, this too will contribute to an upturn in consumer spending. The introduction this fall of the more energy-efficient 1981 cars should give domestic auto sales a boost.

In sum, it seems to us that the path of this business cycle (in terms of industrial production) will follow the standard V, though perhaps a little wider and more lopsided than usual. (The shape of our forecast is independent of the fact that V is also the ticker symbol of Irving Bank Corporation.)

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL		FORECAST					ACTUAL	FORECAST	
	1980		1980		1981			1978-	1979-	1980-
	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.8	0.6	5.0	9.2	13.6	15.2	13.1	13.7	11.3	7.8	[illegible]
Real GNP	1.2	-9.0	-3.2	1.1	5.4	7.3	5.5	6.5	2.3	-1.2	2.9
GNP Price Deflator	9.5	10.6	8.5	8.0	7.8	7.4	7.2	6.8	8.8	9.1	[illegible]

	ACTUAL	FORECAST	ACTUAL	FORECAST	
	1980:II	1980:III	1978-1979	1979-1980	1980-1981
Consumer Spending	-0.2%	11.0%	11.8%	10.0%	[illegible]
Durable Goods	-37.6	10.6	6.3	-3.4	12.9
Nondurable Goods	1.7	9.4	12.5	[illegible]	10.5
Services	11.4	12.6	12.9	[illegible]	[illegible]
Business Capital Spending	-7.0	-3.8	15.3	4.6	10.9
Structures	2.0	-4.2	21.0	10.4	7.8
Equipment	-12.4	-3.6	12.2	[illegible]	[illegible]
Residential Investment	-57.8	-18.0	5.6	-18.1	[illegible]
			1979	1980	1981
Change in Inventories	$13.6 b.	$-10.0 b.	$18.2 b.	$1.0 b.	[illegible] b.
Net Exports of Goods and Services	$-2.5 b.	$5.0 b.	$-4.6 b.	$-1.5 b.	$-[illegible] b.
			1978-1979	1979-1980	1980-1981
Government Purchases	8.9%	8.6%	9.4%	12.1%	9.5%
Federal	16.1	7.2	9.2	16.7	10.4
Defense	15.9	10.0	9.4	15.7	11.7
Other	16.6	2.3	9.0	18.5	8.1
State & Local	4.9	9.4	9.5	9.6	8.9
Corporate Profits Before Tax	-8.4*	-18.1*	14.9	-7.2	16.4
Corporate Profits After Tax	-7.2*	-16.3*	18.6	-5.9	15.[illegible]
Plant and Equip. Expenditures	-6.9F	-4.0	15.1	5.8	[illegible]
Real Final Sales #	-9.8	-0.7	2.7	-0.4	3.1
Real Disposal Personal Income	-5.9	-2.0	2.3	-0.9	3.2

	RECENT DATA			ACTUAL	FORECAST	
ECONOMIC INDICATORS	May	June	July	1978-1979	1979-1980	1980-1981
Consumer Price Index**	10.8%	12.0%	0.0%	13.3%	12.4%	8.2%
Producer Price Index for Finished Goods**	3.6	9.6	20.4	12.5	12.4	8.1
Industrial Production	-31.6	-27.4	-18.7	4.1	-6.2	2.4
Retail Sales ##	-0.6	1.4	2.0	10.7	4.3	9.7
				1979	1980	1981
Auto Sales (millions of units, a.r.)	7.4	7.4	8.9	10.7	9.4	10.5
Housing Starts (millions of units, a.r.)	0.91	1.21	1.27	1.75	1.20	1.64
Unemployment Rate	7.8	7.7	7.8	5.8	7.4	7.6
Merchandise Trade Deficit (a.r.)	$47.5 b.	$27.4 b.	$22.2 b.	$37.3 b.	$35.0 b.	$45.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

September 9, 1980

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Economic Outlook

Irving Trust

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Economic Research & Planning Division

October 1980

The recession has ended. Although the evidence is fragmentary, the best available information indicates that an economic recovery has begun. Given the backup in interest rates since early August, however, the pace of economic activity will likely be relatively sluggish for the next several months, though not so weak as to lead to another downturn. The recovery is expected to gather momentum by the second quarter of next year, with continued gains in output throughout 1981. But because monetary policy will likely be less accommodative in this recovery relative to prior recoveries, the economic expansion will also be more restrained.

One of the best indicators for determining the timing of business cycles is the index of industrial production. In the last four recessions prior to 1980, the trough in industrial production coincided with the end of the recession. Industrial production rose 0.5% in August from the July level, after falling steadily from the peak in January. Industrial production is one of the four components of the index of coincident indicators. As with industrial production, the cyclical bottom in coincident indicators coincided with the end of the four recessions prior to the most recent one. In August, coincident indicators rose 0.2% from the July level--not very impressive, but nonetheless reversing a steady series of declines. This evidence indicates that the recession ended in July and an economic recovery began in August, considerably earlier than even we (who were among the optimists) expected.

Our view in the past had been that the 1980 recession would be moderate. Certainly for the auto industry, that characterization was incorrect: For auto dealers and manufacturers, the downturn has been a disaster. But overall, the 1980 recession has proved to be considerably less severe than the prior recession. For example, the peak-to-trough decline in industrial production was 15.3% in the 1973-1975 recession, compared to 8.4% in 1980. The 1980 recession turned out to be intense, but short, more severe than some prior recessions, but not as bad as others.

This assessment, of course, is based on the assumption that another plunge in economic activity is not lurking around the bend. The recent increases in interest rates are indeed likely to impinge on the recoveries in the housing and auto sectors. This reversal in interest rates is the result of the surge in the money supply that occurred during the last several months. The extraordinary increases in the monetary aggregates disturbed market participants' views about the potential for controlling inflation and led to anticipations of restraining actions by the Fed. The increase in rates has undoubtedly caused some slowing in the recovery. As a result, growth in the money supply is also likely to become more tempered, allowing interest rates to fall early next year. Thus, we are probably experiencing just a temporary rate reversal in a broad but volatile downtrend, which will continue in the year ahead. The pent-up demand for housing and autos is strong, and declines in interest rates from recent levels will likely release the brakes.

Bernard Schoenfeld

IRVING TRUST COMPANY ECONOMIC FORECAST
(Percent Changes at Annual Rates)

	ACTUAL 1980		FORECAST 1980		1981				ACTUAL 1978-	FORECAST 1979-	1980-
	I	II	III	IV	I	II	III	IV	1979	1980	1981
Gross National Product	10.8	0.1	10.0	9.6	13.0	14.4	12.4	12.3	11.3	8.4	11.3
Real GNP	1.2	-9.6	1.1	1.5	4.2	7.0	5.0	5.2	2.3	-0.8	3.1
GNP Price Deflator	9.5	10.7	8.3	8.0	8.5	7.0	7.0	6.8	8.8	9.2	8.0

	ACTUAL 1980:II	FORECAST 1980:III	ACTUAL 1978-1979	FORECAST 1979-1980	1980-1981
Consumer Spending	-0.7%	16.1%	11.8%	10.7%	12.2%
Durable Goods	-37.6	43.0	6.3	-0.1	16.0
Nondurable Goods	1.3	13.0	12.5	12.0	11.3
Services	10.8	13.0	12.9	12.9	11.9
Business Capital Spending	-6.3	-6.7	15.3	4.7	10.0
Structures	1.6	-7.9	21.0	10.5	7.9
Equipment	-11.1	-5.9	12.2	1.5	11.2
Residential Investment	-58.0	-17.6	5.6	-17.9	20.2
			1979	1980	1981
Change in Inventories	$11.4 b.	$-4.0 b.	$18.2 b.	$3.7 b.	$7.1 b.
Net Exports of Goods and Services	-2.2 b.	$10.0 b.	$-4.6 b.	$-2.5 b.	$-14.8 b.
			1978-1979	1979-1980	1980-1981
Government Purchases	8.9%	8.6%	9.4%	12.1%	9.5%
Federal	16.1	7.2	9.2	16.7	10.4
Defense	15.9	10.0	9.4	15.7	11.7
Other	16.6	2.3	9.0	18.5	8.1
State & Local	4.9	9.4	9.5	9.6	8.9
Corporate Profits Before Tax	-10.1*	-19.7*	14.9	-8.5	15.9
Corporate Profits After Tax	-8.8*	-17.7*	18.6	-7.0	15.0
Plant and Equip. Expenditures	5.2	-5.9	15.1	8.2	9.7
Real Final Sales #	-10.2	2.5	2.7	-0.1	2.8
Real Disposal Personal Income	-6.0	3.7	2.3	-0.2	3.3

	RECENT DATA			ACTUAL	FORECAST	
ECONOMIC INDICATORS	June	July	August	1978-1979	1979-1980	1980-1981
Consumer Price Index**	12.0%	0.0%	8.4%	13.3%	12.1%	8.3%
Producer Price Index for Finished Goods **	9.6	20.4	18.0	12.5	12.4	8.1
Industrial Production	21.7	-13.6	6.0	4.2	-4.7	4.0
Retail Sales##	1.9	3.1	1.5	10.7	6.3	11.8
				1979	1980	1981
Auto Sales (millions of units, a.r.)	7.4	8.9	8.6	10.7	9.3	10.4
Housing Starts (millions of units, a.r.)	1.22	1.25	1.40	1.75	1.24	1.62
Unemployment Rate	7.7	7.8	7.6	5.8	7.2	7.1
Merchandise Trade Deficit	$27.4 b.	$22.2 b.	$12.7 b.	$37.3 b.	$35.0 b.	$45.0 b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.
#GNP less change in inventories, both in real terms.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).
##Monthly percent changes are not annualized.
$b. = billions of dollars. a.r. = annual rate. F = Forecast.

October 14, 1980